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SIPDIS

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TAGS: [EFIN](#) [ECON](#) [PREL](#) [NI](#)

SUBJECT: NIGERIA: THE LATEST IN THE IMF SAGA

REF: ABUJA 2301

[1](#)1. Classified by Charge d'Affairs Timothy D. Andrews for Reasons 1.5 (b) and (d).

[1](#)2. (C) EconOff spoke October 31 to Ernest Ebi, Deputy Governor for International Operations at the Central Bank, to discuss the IMF program. Ebi confirmed that the IMF had decided not to extend the SBA and that a new IMF team would arrive October 31 to begin discussions on a monitoring program. On October 26, the IMF had dispatched Messrs. Goodall Gondwe and Hiroyuki Hino to convey this message to President Obasanjo.

[1](#)3. (C) According to British colleagues in Abuja, President Obasanjo agreed to discuss the details of putting in place a monitoring program, similar to (but not called) a Staff Monitored Program (SMP). A monitoring program would only require approval by the IMF Managing Director, not the Board. While it does not have the Board sanction it would carry with it the financial discipline of an SBA.

[1](#)4. (C) With a monitoring program in place, the IMF would then look to develop either a new one-year SBA or possibly a 3-year Poverty Reduction and Growth facility program (PRGF). A PRGF is a concessional facility with 0.5 interest rate, with repayment of 10 years and grace period of 5.6 years. The key to developing a PRGF is for the GON to produce an IMF-approved Poverty Reduction Strategy Paper (PSRP).

[1](#)5. (C) However, a PRGF would require significantly more time to develop than a SBA. Moreover, with the 2003 elections approaching, success over a 3-year period may be difficult to achieve and early success difficult to ascertain. A new one-year SBA may be the best way to proceed as it could be put in place more quickly and is easier to monitor. Undoubtedly, the GON will push for a medium-term facility, such as the PRGF, that might allow the GON to initiate discussions on debt forgiveness with the Paris Club.

[1](#)6. (C) Without a SBA, the Paris Club is in uncharted territory. A monitoring program does not necessarily provide the assurances on reform sought by the Paris Club governments. Consequently, the Paris Club may need to reexamine the criteria for negotiating debt rescheduling agreements. If negotiations are halted, Nigeria will face accelerated debt service payments in 2002.

Background

[1](#)7. (C) In the August 2001 review of Standby Arrangement (SBA) the Fund found that serious macroeconomic imbalances had emerged in Nigeria over the last year. Inflation has accelerated to double-digit levels since August of 2000 (19.7% in July 2001), and instability has prevailed in the foreign exchange market with the premium in the parallel market rising to 19%. An index of the purchasing power of the Naira (a rough indicator of changes in competitiveness) has fallen to new lows as inflation has increased and the IFEM has remained static. In September, the IMF had declared talks on the SBA to be inconclusive (reftel). A high ranking GON delegation visited the IMF in Washington in September and convinced the Fund not to abandon the program entirely. The GON also wanted the SBA continued until at least December; that now will not happen. The SBA expires today (October 31).
Andrews